

# **WIND DOWN AND FUTURE REPEAL OF IOWA FUND OF FUNDS TAX CREDIT PROGRAM**

## **Prior Law**

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A contingent tax credit is available for investments made in the Iowa Fund of Funds. The Iowa Fund of Funds, which was organized by the Iowa Capital Investment Corporation, makes investments in venture capital funds that make a commitment to consider investing in businesses located in Iowa. The Fund of Funds hired a fund manager to assist in making these investment decisions. The contingent tax credit is capped at \$60 million, and \$3 million of the credit is reserved for loan guarantees and other credit related enhancements on loans to rural and small business borrowers within the state of Iowa. The tax credits are only redeemed if the actual rate of return on the Fund investments does not meet the rate of return guaranteed to investors. Any return in excess of the guaranteed rate is to be reinvested in the Fund of Funds as a revolving fund. The contingent tax credits are issued by the Iowa Capital Investment Board. The Fund of Funds is scheduled to be liquidated in 2052, fifty years after its organization in 2002.

The investments in the venture capital funds are funded by a revolving loan with the contingent tax credits as collateral. The revolving loan arrangement was in danger of being in default in early 2012, and an agreement was reached between all parties involved in this program whereby \$25.6 million in tax credits were verified to be claimed on Iowa tax returns. These tax credits could then be sold to companies who could claim the tax credit on a tax return, and the proceeds from the credit sales were used to satisfy the revolving loan debt. The \$25.6 million roughly equaled the amount of money invested in these venture capital firms.

## **New Provisions**

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Legislation was enacted to reflect the terms of the settlement between all the parties related to the wind down of the Fund of Funds program. Some provisions included the following:

- The Iowa Fund of Funds cannot make new investments in private seed and venture capital partnerships or entities.
- A designated investor cannot make any investment in the Iowa Fund of Funds unless such investment was required by the Agreement.
- No additional tax credits will be issued, redeemed or verified unless required by the Agreement or deemed necessary by the Director of Revenue and the Iowa Attorney General's office.
- No new fund managers can be involved in the Fund of Funds program.
- Tax credit certificates can no longer be pledged as security for a loan unless provided in the Agreement.

- The \$3 million of credits reserved for loan guarantees and credit related enhancements on loans to rural and small business borrowers has been repealed.
- The Iowa Capital Investment Corporation will assist the Iowa Capital Investment Board, the Department of Revenue, and the Attorney General's office in winding down the Fund of Funds program.
- Any investment returns for the Fund of Funds in excess of the rate guaranteed to investors will be deposited in the general fund of the state of Iowa after the revolving debt is satisfied.
- The issuance of contingent and verified tax credit certificates related to the Fund of Funds program is to be governed by the Agreement.
- The Fund of Funds program will be repealed on the expiration or termination of the Agreement or December 31, 2027, whichever is the later.

**Section Amended**\_\_\_\_\_

Section 129 of 2013 Iowa Acts Senate File 452 amends section 15E.62, Code 2013, by adding new subsections 3 and 4. Section 130 amends section 15E.65, subsection 2, paragraph h, Code 2013. Section 131 creates new section 15E.72, Code 2013.

**Effective Date**\_\_\_\_\_

June 20, 2013.